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Economists see South Bay downturn likely

Silicon Valley / San Jose Business Journal

A recession is nearly certain in the South Bay in the next year, economists warned at a regional forecast conference in San Jose on Thursday.

"We're headed for a bad economic situation," Jon Haveman, a principal at Beacon Economics in San Rafael said, although he said it won't be a repeat of the tech-driven downturn earlier in the decade.

Haveman and Beacon colleague Christopher Thornberg rate the likelihood of a recession in Santa Clara, San Mateo and San Benito counties at 3-to-1.

A housing downturn that isn't likely to end until early 2009 and an anticipated drop in consumer spending are key factors contributing to the situation, they said.

"Defaults are likely to rise to an all-time high and price declines of 10 to 15 percent are likely, hitting hardest at the low end of the market where the subprime mortgage effect has been the strongest," Haveman said.

Despite that, the Beacon economists predicted that the downturn in the South Bay will be shallower than in other parts of the Bay Area, where they see the East Bay being hit the hardest.

Factors they cited that could help head off a recession are a boost in Silicon Valley exports from a fall in the value of the dollar, government intervention in the housing situation or an expansion driven by a major expansion of a foreign conflict.

"We see these as low probability events," however, they wrote in a report released at the conference.

Strong growth should return locally and nationally by mid-2009, they concluded, "and 2010 will be the best year yet for the region."

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